

United States District Court

FOR THE
NORTHERN DISTRICT OF CALIFORNIA
VENUE: SAN FRANCISCO

FILED
2015 JAN 29 P 12:28
RICHARD W. WIEKING
CLERK U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA,

v.

CR 15 067

WHO

TRACY CHANG and
HOWARD HSU

DEFENDANT(S).

INDICTMENT

18 U.S.C. § 371 - Conspiracy to Defraud the United States
26 U.S.C. § 7206(1) - Making and Subscribing False Tax Returns
26 U.S.C. § 7206(2) - Aiding and Assisting in the Preparation of
False Tax Returns

A true bill.

William [Signature]
Foreman

Filed in open court this 29th day of

JANUARY 2015.

KAREN L. HOM

Karen L. Hom [Signature]

JOSEPH C. SPERO

Clerk

UNITED STATES MAGISTRATE JUDGE

Bail, \$

*no bail out counts
as to both defendants*

DEFENDANT INFORMATION RELATIVE TO A CRIMINAL ACTION - IN U.S. DISTRICT COURT

BY: ☐ COMPLAINT ☐ INFORMATION ☒ INDICTMENT
☐ SUPERSEDING

OFFENSE CHARGED

18 U.S.C. § 371 - Conspiracy to Defraud the United States
 26 U.S.C. § 7206(1) - Making and Subscribing False Tax Returns

☐ Petty
☐ Minor
☐ Misdemeanor
☒ Felony

PENALTY: 18 U.S.C. § 371 - 5 years prison, \$250,000 fine, 3 years supervised release, \$100 assessment; 26 U.S.C. § 7206(1) - 3 years prison, \$250,000 fine, 1 year supervised release, \$100 assessment

Name of District Court, and/or Judge/Magistrate Location

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

CLERK U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**DEFENDANT - U.S.**

▶ TRACY CHANG

DISTRICT COURT NUMBER

PROCEEDING

Name of Complainant Agency, or Person (& Title, if any)

INTERNAL REVENUE SERVICE

☐ person is awaiting trial in another Federal or State Court, give name of court

☐ this person/proceeding is transferred from another district per (circle one) FRCrp 20, 21, or 40. Show District

☐ this is a reprosecution of charges previously dismissed which were dismissed on motion of:

☐ U.S. ATTORNEY ☐ DEFENSE

SHOW
DOCKET NO.

☐ this prosecution relates to a pending case involving this same defendant

MAGISTRATE
CASE NO.

☐ prior proceedings or appearance(s) before U.S. Magistrate regarding this defendant were recorded under

Name and Office of Person

Furnishing Information on this form MELINDA HAAG

☒ U.S. Attorney ☐ Other U.S. Agency

Name of Assistant U.S.

Attorney (if assigned)

Colin Sampson, AUSA, Tax Div.

DEFENDANT**IS NOT IN CUSTODY**

Has not been arrested, pending outcome this proceeding.

1) ☒ If not detained give date any prior summons was served on above charges ▶

2) ☐ Is a Fugitive

3) ☐ Is on Bail or Release from (show District)

IS IN CUSTODY

4) ☐ On this charge

5) ☐ On another conviction

☐ Federal ☐ State

6) ☐ Awaiting trial on other charges

If answer to (6) is "Yes", show name of institution

Has detainer been filed? ☐ Yes ☒ No

If "Yes" give date filed

DATE OF
ARREST

Month/Day/Year

Or... if Arresting Agency & Warrant were not

DATE TRANSFERRED
TO U.S. CUSTODY

Month/Day/Year

☐ This report amends AO 257 previously submitted

ADDITIONAL INFORMATION OR COMMENTS**PROCESS:**

☐ SUMMONS ☐ NO PROCESS* ☒ WARRANT

Bail Amount: _____

If Summons, complete following:

☐ Arraignment ☐ Initial Appearance

Defendant Address:

* Where defendant previously apprehended on complaint, no new summons or warrant needed, since Magistrate has scheduled arraignment

Date/Time: _____ Before Judge: _____

Comments:

DEFENDANT INFORMATION RELATIVE TO A CRIMINAL ACTION - IN U.S. DISTRICT COURT
 BY: ☐ COMPLAINT ☐ INFORMATION ☒ INDICTMENT
☐ SUPERSEDING
OFFENSE CHARGED
 18 U.S.C. § 371 - Conspiracy to Defraud the United States
 26 U.S.C. § 7206(2) - Aiding and Assisting in the Preparation
 of False Tax Returns

☐ Petty
☐ Minor
☐ Misdemeanor
☒ Felony

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 release, \$100 assessment; 26 U.S.C. § 7206(2) - 3 years prison,
 \$250,000 fine, 1 year supervised release, \$100 assessment;

Name of District Court, and/or Judge/Magistrate Location

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

DEFENDANT - U.S.

HOWARD HSU

DISTRICT COURT NUMBER

CR 15 067

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Has not been arrested, pending outcome this proceeding.

- 1) ☒ If not detained give date any prior summons was served on above charges
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- 3) ☐ Is on Bail or Release from (show District)

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Month/Day/Year

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☐ person is awaiting trial in another Federal or State Court, give name of court

☐ this person/proceeding is transferred from another district per (circle one) FRCrp 20, 21, or 40. Show District

☐ this is a reprosecution of charges previously dismissed which were dismissed on motion of:

☐ U.S. ATTORNEY ☐ DEFENSE

SHOW DOCKET NO.

☐ this prosecution relates to a pending case involving this same defendant

MAGISTRATE CASE NO.

☐ prior proceedings or appearance(s) before U.S. Magistrate regarding this defendant were recorded under

Name and Office of Person

Furnishing Information on this form MELINDA HAAG

☒ U.S. Attorney ☐ Other U.S. Agency

Name of Assistant U.S.

Attorney (if assigned) Colin Sampson, AUSA, Tax Div.

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If Summons, complete following:

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Defendant Address: _____

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Date/Time: _____ Before Judge: _____

Comments: _____

MELINDA HAAG (CABN 132612)
United States Attorney

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RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

WHO

CR 15 067

Criminal No.

UNITED STATES OF AMERICA,

Plaintiff,

v.

TRACY CHANG and
HOWARD HSU,

Defendants.

VIOLATIONS: 18 U.S.C. § 371 –
Conspiracy to Defraud the United States;
26 U.S.C. § 7206(1) – Making and
Subscribing False Tax Returns; 26 U.S.C.
§ 7206(2) – Aiding and Assisting in the
Preparation of False Tax Returns

(SAN FRANCISCO VENUE)

UNDER SEAL

INDICTMENT

The Grand Jury charges:

At all times relevant to this indictment, with all dates being approximate and all date ranges both approximate and inclusive:

COUNT ONE: (18 U.S.C. § 371 – Conspiracy to Defraud the United States)

1. From September 15, 2009, and continuing until March 1, 2011, in the Northern District of California and elsewhere, the defendants,

TRACY CHANG and
HOWARD HSU,

did unlawfully, voluntarily, intentionally and knowingly conspire, combine, confederate, and agree with one another and with other persons both known and unknown to the Grand Jury to defraud the United States for the purpose of impeding, impairing, obstructing, and defeating the lawful Government functions of the Internal Revenue Service of the Treasury Department in the ascertainment, computation, assessment, and collection of revenue: to wit, federal income taxes due and owing by Didsee Corporation to the United States of America.

PERSONS, PARTIES, AND ENTITIES

2. The Internal Revenue Service ("IRS") is an agency of the United States of America within the Department of the Treasury.

a. The Internal Revenue Code (Title 26 of the United States Code) contains the Internal Revenue Code and laws of the United States concerning, among other things, tax liability.

b. "Federal income tax" refers to the tax due to the United States of America under the Internal Revenue Code and reported on U.S. Corporation Income Tax Returns ("Form 1120") or an Amended U.S. Corporation Income Tax Return ("Form 1120X") filed with the IRS.

3. Didsee Corporation ("Didsee") was a Nevada Corporation established by Tracy Chang ("Chang") on April 25, 2007, and owned and operated by Howard Hsu ("Hsu") and Chang.

4. Chang, an accountant and Hsu's mother, was listed as Didsee's President, Secretary, Treasurer, and Director. Chang was also the bookkeeper and accountant for Didsee.

5. Hsu wrote and developed the computer code for Didsee's online advertisement marketing business and acted as its Managing Director. Didsee's clients were online websites and marketplaces. Hsu reviewed Didsee's books and records and provided income statements and balance sheets to the company's tax return preparers.

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MANNER AND MEANS

The manner and means by which the conspiracy was accomplished included, among other acts, the following:

6. Chang handled the accounting for Didsee during 2008 and 2009.

7. Hsu directed Chang to pay for his personal expenses from Didsee's bank accounts.

8. In October 2008, Didsee's 2007 Form 1120, was prepared by a Certified Public Accountant ("CPA"). The Form 1120 reported total income of \$1,653,511, and total deductions of \$229,178, for a total taxable income of \$1,424,333 and total tax of \$484,273.

9. In September 2009, Didsee's 2008 Form 1120 was prepared by the CPA using summaries and information provided to her by Hsu. Chang signed Didsee's Form 2008 Form 1120 as Didsee's President on December 28, 2010, and it was filed with the IRS. Didsee's 2008 Form 1120 reported total income of \$1,992,158, and total deductions of \$1,946,782, for a total taxable income of \$14,693 and total tax of \$2,204.

10. In September 2010, another CPA prepared Didsee's 2009 Form 1120, using summaries and information provided to her by Hsu. Didsee's 2009 Form 1120 claimed total deductions of \$377,848, resulting in a net operating loss of \$362,967. The claimed 2009 net operating loss was then carried back, through the filing of a 2007 Form 1120X, Amended U.S. Corporation Income Tax Return, which Chang signed on March 1, 2011. This resulted in a refund of 2007 federal income taxes Didsee paid in the amount of \$126,706.

11. Hsu provided Didsee's tax return preparers with false and overstated information, including summaries of Didsee's expenses for 2008 and 2009 during the preparation of Didsee's 2008 and 2009 Form 1120 federal income tax returns.

12. Hsu provided summaries to the preparer of Didsee's 2008 Form 1120 which included amounts to be claimed as deductible expenses that were not actually incurred by Didsee, and claimed deductible expenses that were actually personal expenses of Hsu and Chang paid for by Didsee.

13. The summaries Hsu provided to the preparer of Didsee's 2009 Form 1120

1 included amounts to be claimed as deductible expenses that were not actually paid for or
 2 incurred by Didsee, and claimed as deductible expenses that were actually personal expenses of
 3 Hsu and Chang that Didsee paid.

4 14. Chang signed Didsee's 2007 Form 1120X to carry back overstated losses in order
 5 to obtain a refund of federal income taxes paid by Didsee in 2007.

6 15. Hsu did not report as income on his 2007 through 2009 Forms 1040, Federal
 7 Income Tax Returns, significant personal expenses paid on his behalf and at his direction by
 8 Didsee.

9 OVERT ACTS

10 In furtherance of the conspiracy and to affect the objects of the conspiracy, the following
 11 overt acts, among others, were committed in the Northern District of California:

12 16. On September 15, 2009, Hsu directed Chang by e-mail to sign a Form 8879-C,
 13 IRS F-File Signature Authorization for Didsee's 2008 Form 1120 and to provide it to Didsee's
 14 tax return preparer.

15 17. On December 28, 2010, Chang signed Didsee's 2008 Form 1120.

16 18. On March 1, 2011, Chang signed Didsee's and 2007 Form 1120X.

17 All in violation of Title 18, United States Code, Section 371.

18 COUNT TWO: (26 U.S.C. § 7206(1) – Making and Subscribing False Tax Returns)

19 19. The facts alleged in paragraphs 2 through 18 are realleged and incorporated as if
 20 fully set forth here.

21 20. On December 28, 2010, in the Northern District of California and elsewhere, the
 22 defendant,

23 TRACY CHANG,

24 a resident of San Francisco, California, did willfully make and subscribe a 2008 Form 1120 U.S.
 25 Corporation Income Tax Return, for Didsee, for the calendar year 2008, which was verified by a
 26 written declaration that it was made under the penalties of perjury and which she did not then
 27 and there believe to be true and correct as to every material matter, in that the return included
 28 false and overstated deductions for 2008 business expenses of Didsee and improper deductions

1 for personal expenses paid for by Didsee.

2 All in violation of Title 26, United States Code, Section 7206(1).

3 COUNT THREE: (26 U.S.C. § 7206(1) – Making and Subscribing False Tax Returns)

4 21. The facts alleged in paragraphs 2 through 18 are realleged and incorporated as if
5 fully set forth here.

6 22. On March 1, 2011, in the Northern District of California and elsewhere, the
7 defendant,

8 TRACY CHANG,

9 a resident of San Francisco, California, did willfully make and subscribe a 2007 Form 1120X,
10 Amended U.S. Corporation Income Tax Return, for Didsee, for the calendar year 2007, which
11 was verified by a written declaration that it was made under the penalties of perjury and which
12 she did not then and there believe to be true and correct as to every material matter, in that the
13 return included a carryback of claimed 2009 net operating losses which contained false and
14 overstated deductions for 2009 business expenses of Didsee and improper deductions for
15 personal expenses paid for by Didsee.

16 All in violation of Title 26, United States Code, Section 7206(1).

17 COUNT FOUR: (26 U.S.C. § 7206(2) – Aiding and Assisting in the Preparation of False Tax
18 Returns)

19 23. The facts alleged in paragraphs 2 through 18 are realleged and incorporated as if
20 fully set forth here.

21 24. On or December 28, 2010, in the Northern District of California and elsewhere,
22 the defendant,

23 HOWARD HSU,

24 a resident of San Francisco, California, did willfully aid and assist in, procure, counsel, and
25 advise the preparation and presentation to the Internal Revenue Service of a 2008 Form 1120
26 U.S. Corporation Income Tax Return, for Didsee, for the calendar year 2008, which was false
27 and fraudulent as to a material matter, in that the return included false and overstated deductions
28 for 2008 business expenses of Didsee and improper deductions for personal expenses paid for by

1 Didsee.

2 All in violation of Title 26, United States Code, Section 7206(2).

3 COUNT FIVE: (26 U.S.C. § 7206(2) – Aiding and Assisting in the Preparation of False Tax
4 Returns)

5 25. The facts alleged in paragraphs 2 through 18 are realleged and incorporated as if
6 fully set forth here.

7 26. On or September 14, 2010, in the Northern District of California and elsewhere,
8 the defendant,

9 HOWARD HSU,

10 a resident of San Francisco, California, did willfully aid and assist in, procure, counsel, and
11 advise the preparation and presentation to the Internal Revenue Service of a 2009 Form 1120
12 U.S. Corporation Income Tax Return, for Didsee, for the calendar year 2009, which was false
13 and fraudulent as to a material matter, in that the return included false and overstated deductions
14 for 2009 business expenses of Didsee and improper deductions for personal expenses paid for by
15 Didsee.

16 All in violation of Title 26, United States Code, Section 7206(2).

17 COUNT SIX: (26 U.S.C. § 7206(2) – Aiding and Assisting in the Preparation of False Tax
18 Returns)

19 27. The facts alleged in paragraphs 2 through 18 are realleged and incorporated as if
20 fully set forth here.

21 28. On September 8, 2010, and continuing until at least March 1, 2011, in the
22 Northern District of California and elsewhere, the defendant,

23 HOWARD HSU,

24 a resident of San Francisco, California, did willfully aid and assist in, procure, counsel, and
25 advise the preparation and presentation to the Internal Revenue Service of a 2007 Form 1120X,
26 Amended U.S. Corporation Income Tax Return, for Didsee, for the calendar year 2007, which
27 was false and fraudulent as to a material matter, in that the return included a carryback of
28 claimed 2009 net operating losses which contained false and overstated deductions for 2009

business expenses of Didsee and improper deductions for personal expenses paid for by Didsee.

All in violation of Title 26, United States Code, Section 7206(2).

A TRUE BILL

1/29/15
DATE

William R.
FOREPERSON

MELINDA HAAG
United States Attorney

DAVID R. CALLAWAY
Chief, Criminal Division

Approved as to Form:

Colin Sampson
COLIN SAMPSON
Assistant United States Attorney
Tax Division